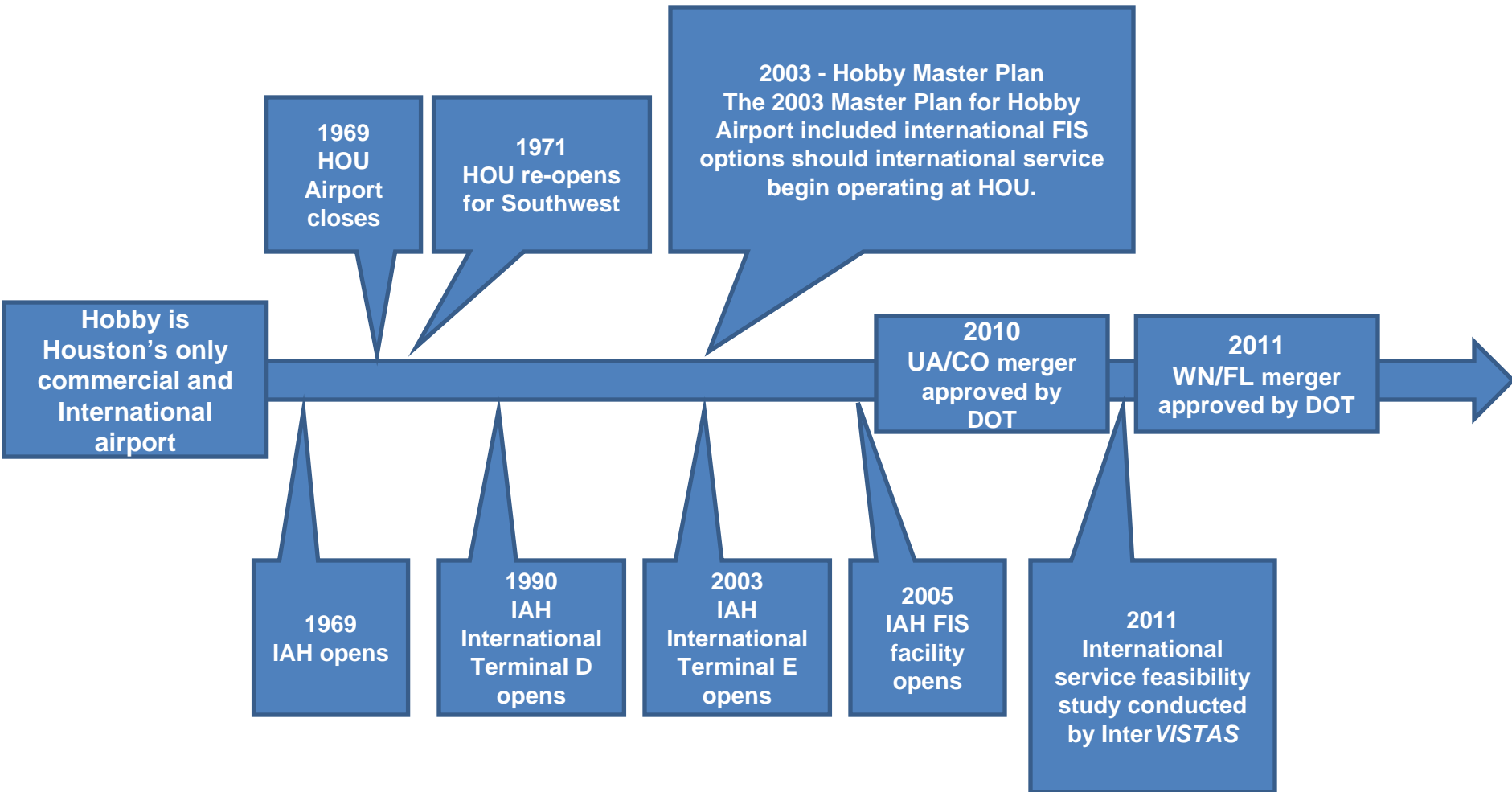


**Airport Director Report to
The Budget and Fiscal Affairs
Transportation, Technology and Infrastructure
Committee
Proposed International Terminal
at Hobby**

April 16, 2012



Timeline – 1969 to Present



Airline Discussions

HAS routinely, through its air service development program, conducts ongoing conversations with multiple airlines and airline alliances concerning changes to air service:

- Turkish Airlines
- Vietnam Airlines
- Air China
- Asiana Airlines
- Korean Air
- EVA Air
- China Airlines
- Lufthansa
- Star Alliance

Timeline related to report release by Aviation Director on Southwest request for international service at Hobby

- **May 2011** – Southwest expresses interest in international service at Hobby and requests Houston Airports evaluate temporary Federal Inspection Service facilities
- **May to December**--Houston Airport Systems evaluates options to accommodate Southwest Airlines' proposed international operations.
 - Among these options, Houston Airports considered requiring Southwest to conduct split operations from Bush Intercontinental (international) and Hobby (domestic).
 - Another option was to request Southwest to relocate completely to Bush Intercontinental
 - Neither option was feasible or practical for Southwest's passengers
- **December 2011** – Southwest requests Houston Airports proceed with the conceptual planning of a permanent, full-service Federal Inspection Service facility at Hobby.

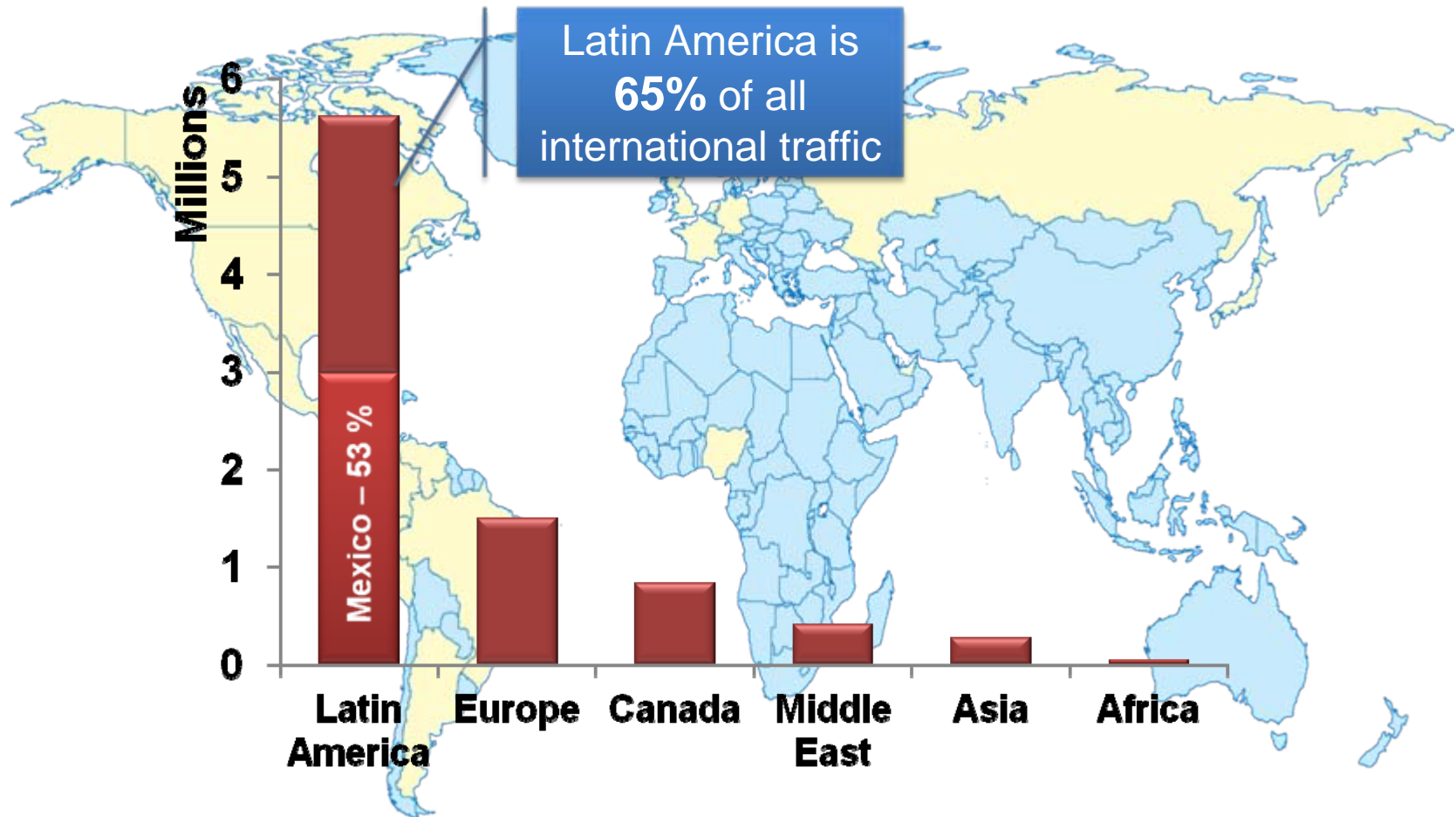
Timeline (continued)

- **January 2012:**
 - Southwest is advised to make a formal request in writing for international service at Hobby and suggest meeting between their CEO and the Mayor
 - InterVISTAS / GRA report was commissioned for this project by Houston Airports under an existing agreement through which *InterVistas* has assisted Houston Airports with projects including Air China, Vietnam Airlines, Cuba, Turkish Airlines and TAM among others.
 - Houston Airports begins preliminary conceptual planning for a Federal Inspection Service facility at Hobby
- **February 2, 2012** – Houston Airports holds meeting with United Airlines to discuss Southwest' proposal.
- Southwest Airlines holds a meeting with the Mayor
- United Airlines holds a meeting with the Mayor
- **March 2012:**
 - March 7, 2012 – Peer Review is held . We asked for a peer review to be convened by aviation experts to help Houston Airports work through some of the issues and act as a sounding board for the discussion concerning the request made by Southwest.
 - March 26, 2012 – Houston Airports provides a draft of the InterVISTAS/GRA report to both United and Southwest
- **April 9, 2012** – Recommendation report is submitted to the Mayor

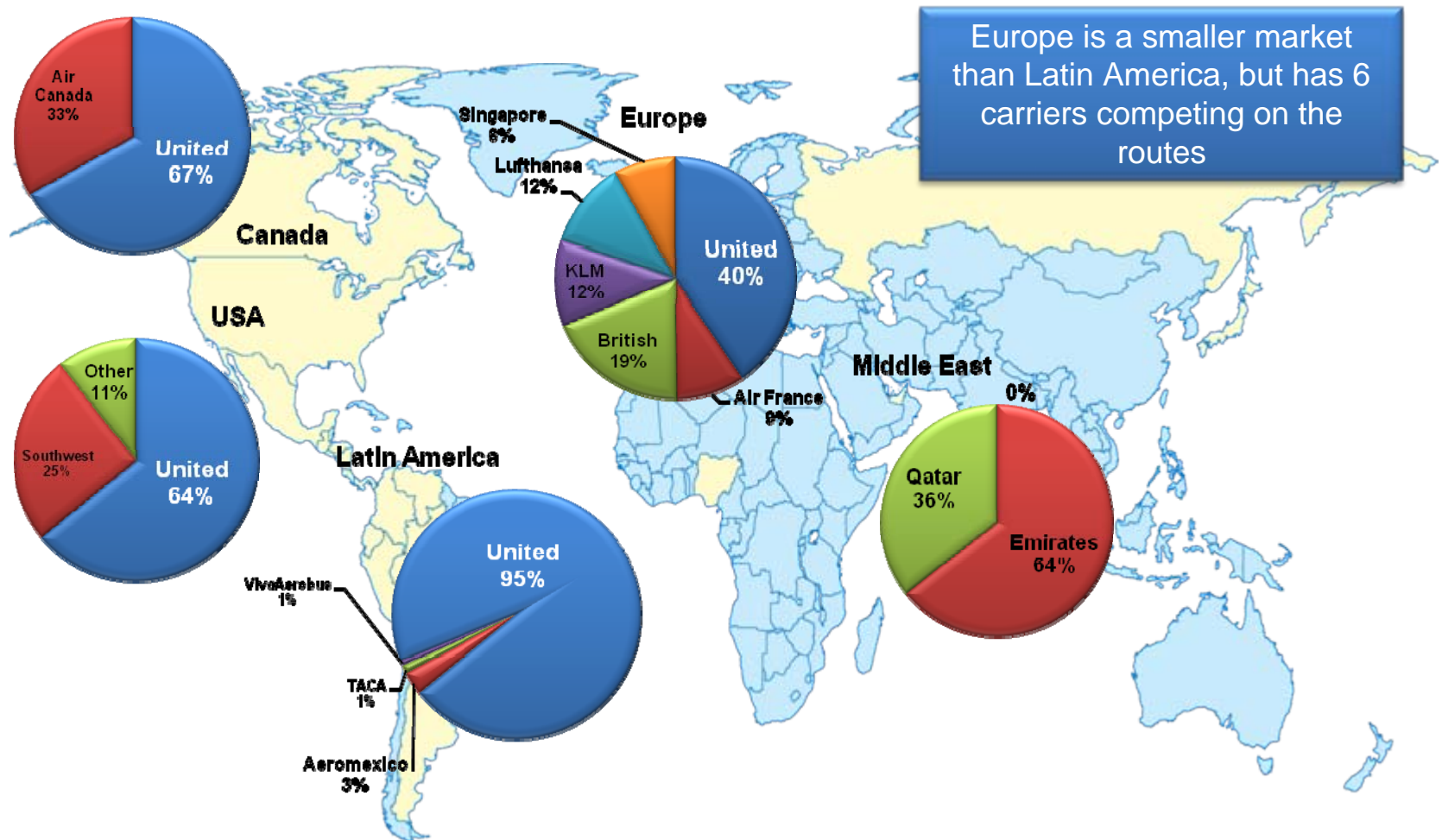
Peer Review – Aviation Experts

- Ben DeCosta, DeCosta Consulting
- Alistair Sherret, Leigh Fisher Management Consultants
- Matt Townsend, Leigh Fisher Management Consultants
- Ken Cushine, Frasca & Associates, L.L.C.
- Rachel Trinder, Zuckert, Scoutt & Rasenberger
- Howard Mann, Inter *VISTAS*
- Richard Golaszewski, GRA, Incorporated
- Randy Rivin, City Law Department

2011 Houston International Passengers – 8.6 mil



Houston Air Carriers, Departure Seats by Market



Why?

Why does the City need to do anything at all?

Why not just tell Southwest no?

Answers

- The City operates a “Public” airport system.
 - It operates that system under Federal Law, pursuant to regulations promulgated by the Federal Aviation Administration.
 - The City has received Federal Taxpayer grants from the FAA for infrastructure development.
 - In return the City obligated itself and the Houston Airport System to refrain from:
 - Granting competitive advantage to any one company deriving economic benefit from business conducted at any one of the Airports
 - Engaging in the regulation of interstate and international air transportation, rights or authority. This power is reserved solely for the Federal Government.

Why? (continued)

Why does the City need to do anything at all?

Why not just tell Southwest no?

Answers

- The Houston Airport System as an enterprise fund is in part responsible for growing the economy of Houston.
 - We do that principally by attracting new airlines or supporting new service from existing airlines.
 - In the City of Houston there are only two airlines operating hubbing networks: United and Southwest. Between them United claims 66% of all domestic seats in the City with Southwest controlling 25%.
 - If you look at the international sector, United has 40% of Western Europe.
 - But United controls 95% of all the Houston-Latin America seats, and with its Star Alliance partners, TACA, controls 97%--a very dominant position.

How do you go about accommodating Southwest?

Why don't we simply tell Southwest to Operate from IAH?

Why don't we tell Southwest to relocate to IAH?

Answers

• We considered whether we should ask Southwest to relocate all its operations to Bush Intercontinental or to conduct split operations, i.e., maintain its current domestic operations at Hobby while operating its new international services from Bush Intercontinental.

- Neither concept is feasible. At Bush Intercontinental there are insufficient gates to accommodate a complete relocation of Southwest, absent construction of a new terminal.
- Nor are split operations by Southwest a reasonable solution. This would force passengers connecting between Southwest's split international and domestic services to travel between Bush Intercontinental and Hobby.
- Realistically, Southwest's international flights at Bush Intercontinental could carry only local passengers who either begin or end their trips in Houston. Southwest would hence be placed at a severe economic disadvantage to United.

What, if any, are the economic benefits to the City?

How many jobs might be created?

What might be the economic impact of the Decision to Support Southwest?

Answers

- In order to assess the economic impact to the flying public and the City that would result from the addition of international air service at Hobby, we commissioned two studies by leading aviation economic experts, InterVISTAS Consulting LLC (IVC) and GRA, Incorporated (GRA), to evaluate the effects of such an operation on the City, its residents, and our airports.

What, if any, are the economic benefits to the City? (continued)

How many jobs might be created?

What might be the economic impact of the Decision to Support Southwest?

Answers

- The methodology applied is well tested, highly valued and utilized extensively by airlines and airports across the United States, as well as by the Federal Aviation Administration (FAA) in preparing its ongoing reports of the economic impact of U.S. civil aviation.

- The report first provides a forecast of the likely air services to be initiated, the projected passenger increases at both Hobby and Bush Intercontinental.
- The second report forecasts the number of jobs that would be created in the Houston region, and the economic benefits for the residents, businesses and community of Greater Houston.
- New international service at Hobby is projected to create over 10,000 jobs and generate approximately \$1.6 billion in annual economic impact for the Houston area.

What about the concerns, and questions, that have been raised by some that there are negative consequences?

What about the contention that there was to be only one International Airport?

Answers

- The claim has been made that there is a long standing City policy in effect that Bush Intercontinental would be the only international airport in the Houston Airport System.
 - There is not a single document or any evidence supporting that contention. On the contrary, both of the immediate Airport Directors, one of whom served as far back as 1982, maintain that no such policy existed to their knowledge, and both maintain that if such a policy had been discussed they would have been opposed to it.
 - It is also worth noting that, dating back to at least 2002, HAS's Master Plan for Hobby has anticipated international operations as a key component of Hobby's future, plans which include the development of international passenger traffic forecasts for the 2007-2022 time frame, and construction of an FIS and new international operations terminal.

What about the concerns, and questions, that have been raised by some that there are negative consequences? (continued)

What about Customs and Border Protection Staffing? Will we have enough?

Answers

- The issue of Customs and Border Protection (CBP) staffing is the same as the issue of TSA staffing of the security checkpoints. Many ask: what are we going to do?
- What we would need to do is what was done in Atlanta where the City worked with CBP and the Georgia Congressional delegation to gain the additional agents to staff the new International terminal about to open next month. There the City received 120 additional CBP agents.
- For the 2012 Fiscal Year, CBP added 300 new agents to its budget. Seventy five of those agents were split between Atlanta and Miami. Atlanta will receive a total of 120 additional CBP agents when it opens its new international terminal next month.
- We need to remember too that these additional staffing would not be needed until 2015, and so we have the time needed to properly plan with CBP.
- We should note that DHS has an obligation to allocate CBP staff where there is demand for its services, and it is reasonable to expect that Houston will secure its fair share of national resources if this is where international traffic growth occurs.

What about the concerns, and questions, that have been raised by some that there are negative consequences? (continued)

And what about the contention that the decision will harm Bush Intercontinental?

Answers

- Concerning the losses some say will occur at IAH we would say that if the economy of Houston was expected to be stagnant or were forecast to contract; if we expected a reversal of population in-migration to out-migration; if we believed new business formation and relocation to Houston were going to cease, then we might be inclined to be concerned. But such is not the case. This is Houston, the fastest-growing and most diverse in the U.S., officially reaching a total of 6 million people last summer, surpassing Philadelphia to become the nation's fifth-largest metropolitan area. From 2000 to 2009, Houston's population grew by 24.4 % compared to the national average of 9.1%. This sustained economic growth results in demand for more air service, not less. That would mean more jobs; not less.
- United says that it welcomes competition at IAH from any airline, Including Southwest.
- But it requires that competition to be conducted at Intercontinental only!

What about the concerns, and questions, that have been raised by some that there are negative consequences? (continued)

And what about the contention that the decision will harm Bush Intercontinental?

Answers

- Imagine we simply pick up the terminal at Hobby and move it to some location on Bush Intercontinental. The very same results would be seen. Whatever traffic would move to Southwest, would move to Southwest. It would no longer flow through United's network. It would now flow through Southwest network. The same issues would confront United as would if Southwest operated at Hobby.
- Some argue that this decision will compromise International service to Houston through Bush Intercontinental. For the period ending the third quarter 2011, there were less than 100,000 passengers connecting through Houston on United and its Star Alliance partners to Latin America from Europe.

What about the concerns, and questions, that have been raised by some that there are negative consequences? (continued)

And what about the contention that the decision will harm Bush Intercontinental?

Answers

- For the same period United carried the bulk of its passengers to Latin America, 2.3 MM from the United States: 661,000 local passengers; 1.6MM transfer passengers from other cities in the US.
- It is this same market, not European markets or other world markets that United would compete with Southwest to accommodate.
- Some say that we shouldn't focus on competition between airlines in Houston. We should instead look to have the airlines in Houston compete with those of other cities, namely Atlanta, Dallas and Miami even if that means overlooking, accepting dominant control by a single carrier of the fastest growing market for Houston: Latin America.

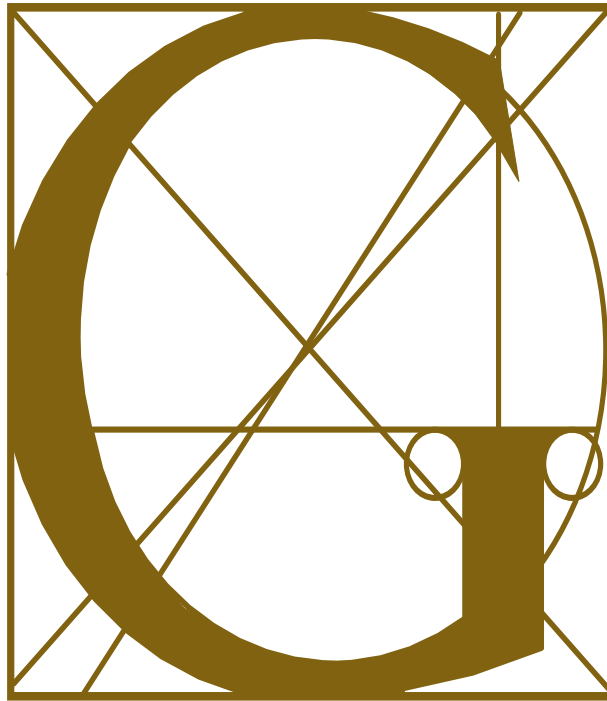
What about the concerns, and questions, that have been raised by some that there are negative consequences? (continued)

And what about the contention that the decision will harm Bush Intercontinental?

Answers

- That said, it is not the City's role, nor is it in the community's best interests, to act as an arbitrator between two competing carriers over airport access and competition, nor can we be seen to be giving one airline competitive advantage.

Economic Impact

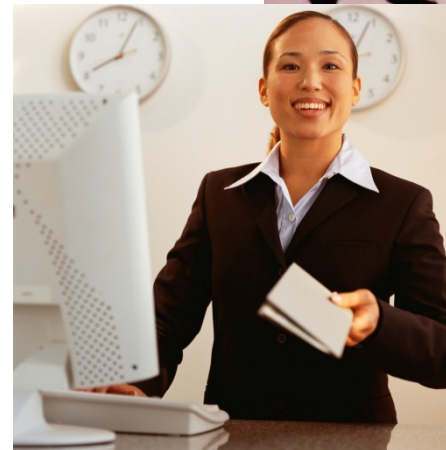
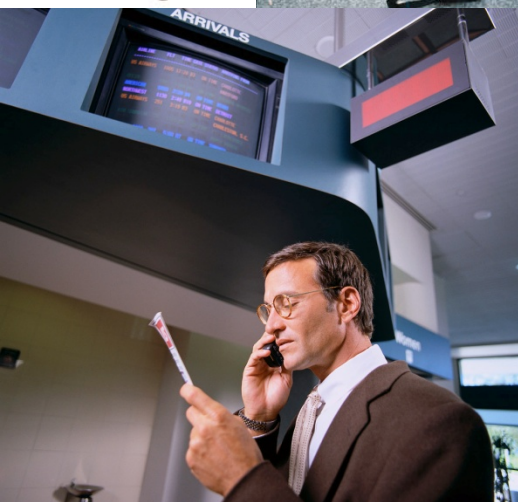


Economic Impact to the City - \$1.6 Billion

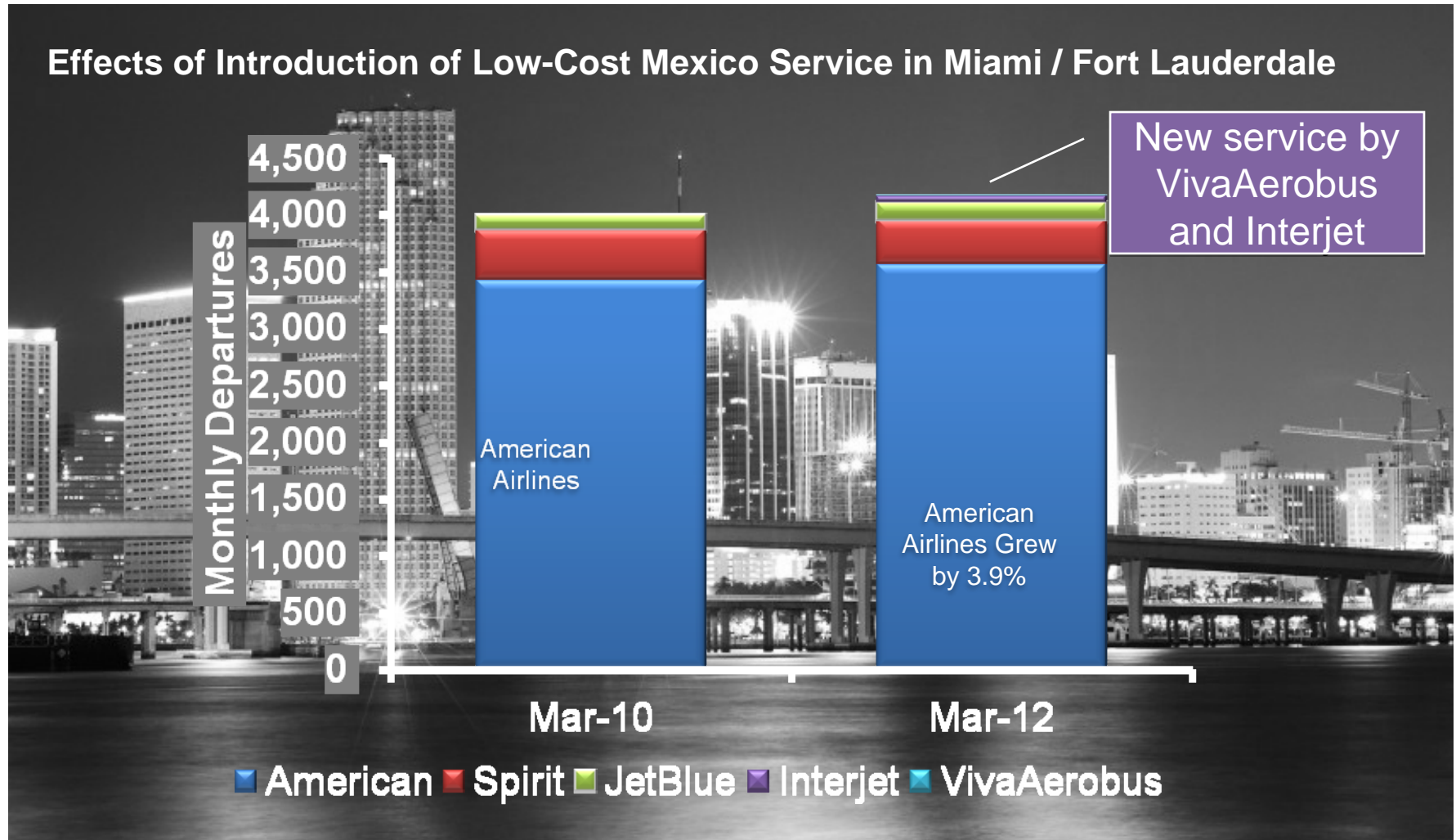
1.5 Million
Additional International Travelers



10,000 Jobs



The Impact of Low-Cost Competition: Miami



The Impact of Low-Cost Competition: Chicago



Passenger Facility Charge (PFC)

What is a PFC?

- The Passenger Facility Charge (PFC) Program allows the collection of PFC fees of up to \$4.50 for every enplaned passenger at commercial airports controlled by public agencies. Airports use these fees to fund FAA-approved projects that enhance safety, security, or capacity; reduce noise; or increase air carrier competition.
- The PFC program was initiated in 1991 by the FAA.
- The PFC fee is very much like the fee charged by the Hardy Toll Road Authority every time someone uses the toll road.
- The authority does not limit the use of the “fee” it collects to the segment of the toll road used.
- Similarly, the Houston Airports uses the PFC fee for all components in the airport system: Runways, Taxiways, Terminals, Roadways
- There is not cross-use of PFC between airports.

Passenger Facility Charges (continued)

- PFCs were not collected at Hobby until 2006 and Bush Intercontinental until 2008, and presently are \$3.00 at both airports, 15 years after the beginning of the PFC program.
- All other major hub airports (except Charlotte) are at \$4.50
- ATL example
 - Total cost of New International Terminal was \$1.6 Billion
 - PFC funds covered over \$1 Billion of that amount
 - In doing so the cost per enplanement in Atlanta has been kept exceptionally low despite the investment of over \$6.2 Billion since 2000.
 - The cost per enplanement in Atlanta was \$2.55 per passenger in 2000
 - It will be \$4.51 through 2017, even after new terminal opens next month
- The PFC increase at Hobby would finance the development at Hobby and the collection would be limited to Hobby.

Passenger Facility Charges (continued)

Medium Hubs

\$3.00 PFCs

- Anchorage, AL
- Memphis, TN
- Houston (HOU), TX
- Milwaukee, WI

\$4.50 PFCs

- Albuquerque, NM
- Austin, TX
- Buffalo, NY
- Burbank, CA
- Cincinnati, OH
- Cleveland, OH
- Columbus, OH
- Dallas (DAL), TX
- Ft. Myers, FL
- Hartford, CT
- Indianapolis, IN
- Jacksonville, FL
- Kansas City, MO
- Maui, HI
- Nashville, TN

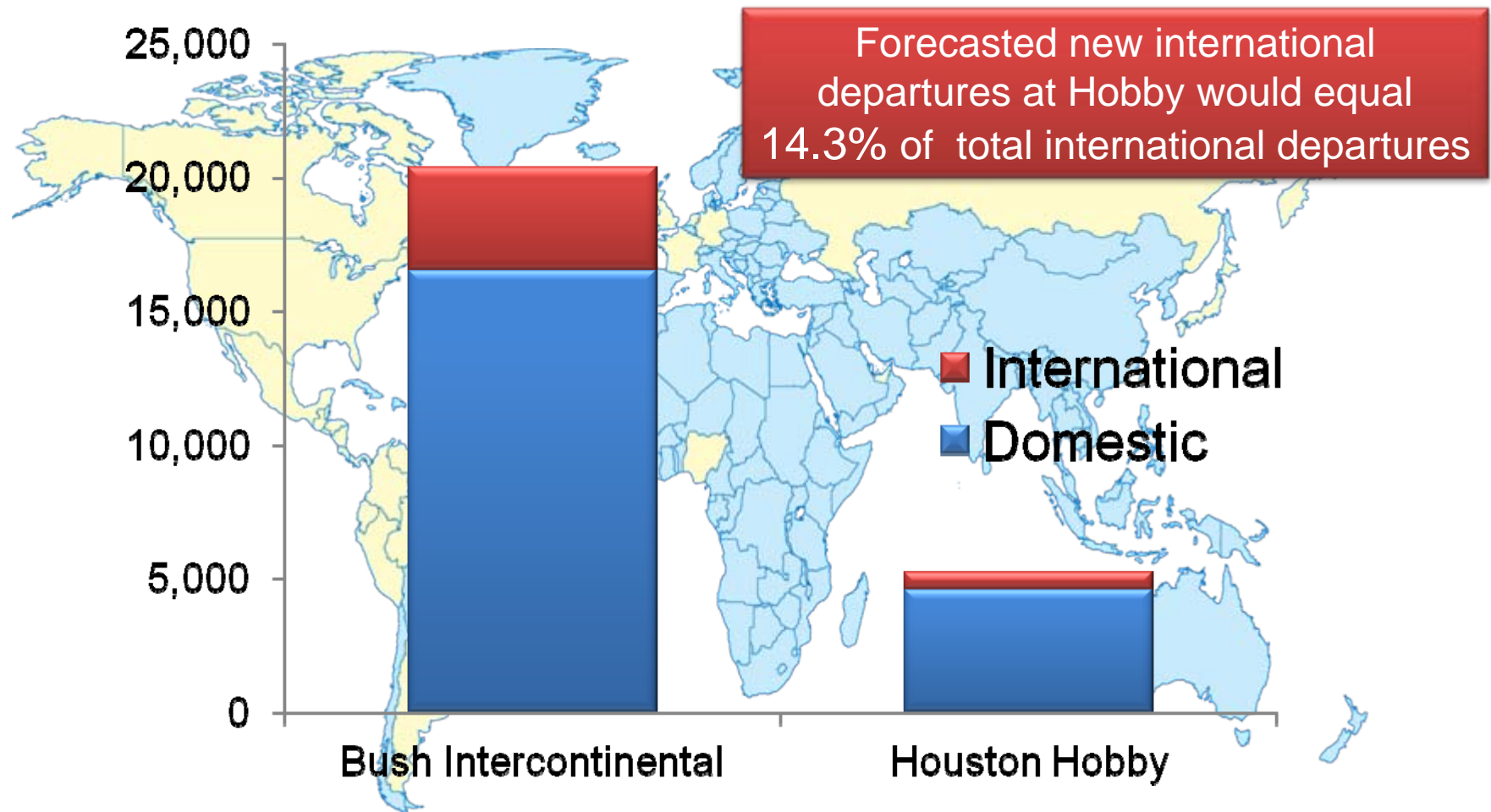
- New Orleans, LA
- Oakland, CA
- Ontario, CA
- Orange County, CA
- Palm Beach, FL
- Pittsburgh, PA
- Portland, OR
- Providence, RI
- Raleigh, NC
- Reno, NV
- Sacramento, CA
- San Antonio, TX
- San Jose, CA
- San Juan, PR
- St. Louis, MO
- Tucson, AZ

Large Hubs

Chicago (MDW) and Fort Lauderdale (FLL) are both considered large hubs and charge \$4.50

Houston (IAH) and Charlotte (CLT) are the only two large hubs charging \$3.00. The rest are charging \$4.50

Current Monthly & Forecasted New Departures



Stakeholder Reviews

- Briefing to All Airlines at Both Airports
- Briefing for Greater Houston Partnership Transportation Committee
- Briefing for Houston Hispanic Chamber of Commerce Membership
- Briefing for Bay Area Houston Economic Partnership
- Briefing for Greenspoint Chamber
- Presentation at Hobby Airport District I
- Presentation at Intercontinental Airport District B
- Presentation to City Council by United Airlines
- Presentation to City Council by Southwest Airlines
- Organized Labor
- Memorandum of Agreement to be prepared for Council Approval
- Department of Transportation route authorization approval
- Customs and Border Protection Landing Rights Approval
- Customs and Border Protection incremental agents approval

Questions?



Capital Improvement Projects

Project #	Construction Project	Estimated Start	
M-000288	Easthaven Blvd (Bryant to Ledge) Drainage and Paving	FY13	
N-000382	Neighborhood Street Reconstruction Project 450	FY12	
N-000796	Manchester and Japhet Paving	FY12	
N-000573	Broadway Reconstruction: IH-45 to Airport Blvd	FY13	
Need Area #	Street	Location	Super Neighborhood
NT04	Broadway	From IH-45 to Galveston Rd	Pecan Park, Park Place
NT28	Wayside	From Long to Griggs	Golfcrest/Bellfort/Reveille, Gulfgate Riverview/Pine
NT34	McKinney	From Dowling to Sampson	Downtown
NL10	Near Woodridge and Evergreen	Woodridge	Pecan Park

Capital Improvement Projects (continued)

